##### Market failure

# Exercise 7.0 Mix and Match Key Terms

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| Externalities |  | A good considered to be socially harmful. It usually has external costs. |
| Private costs |  | As opposed to a private good. It has non excludability (which means that if it is produced no one can be excluded from its use) and non rivalry (one person benefiting doesn’t reduce the amount available for others) |
| External costs |  | Devices aimed at building the full effects into the market price so that the price mechanism can be used to allocate resources efficiently because the revised price reflects the full costs. This is called internalizing the externality. |
| Merit goods |  | The difference between private and social costs. These are the costs experienced by a third party not directly involved in the economic activity. |
| Demerit goods |  | Private ownership of scarce resources which gives the legal entitlement to use & sell property and the right to sue for compensation. |
| Market based instruments |  | A cost or benefit of either production or consumption, which has spill-over effects that affect a third party, not paid by the producer or consumer. |
| Property rights |  | When government intervention to correct market failure leads to a net loss in economic welfare. In other words they make it worse than the market failure to begin with. |
| Public good |  | Costs directly incurred by consumers and producers when they engage in economic activity. |
| Government failure |  | A good considered to be socially beneficial. It usually has external benefits |